

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Regulation 13(4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 against M/s. Harvic Management Services (I) Ltd. , (Sub-Broker affiliated to M/S B.M Gandhi Securities Ltd.), having SEBI Registration No. INS 01496938 in the matter of alleged manipulation in the scrip of Malvika Engineering Ltd.

1.0 BACKGROUND

- 1.1 Pursuant to Chairman's order dated August 31, 2002, Securities and Exchange Board of India conducted investigation into the alleged irregularities in the trading in the scrip of M/s Malvika Engineering Limited (hereinafter referred to as "MEL") for two periods i. e December 20, 1999 to March 31, 2000 and August 7, 2000 to August 31, 2000 (hereinafter referred to as relevant period). The investigation revealed that during the relevant period the price of the scrip moved from Rs. 9.40 to Rs.5.00. The scrip touched a high of Rs 11.10 on August 14, 2000 and a low of Rs. 5.00 on August 31, 2000. The volume of the scrip increased from 100 shares on August 4, 2000 to 1,19,500 shares on August 7,2000 and 1,59,500 shares on August 08, 2000.
- 1.2 During the said investigation, it was found that M/s. Harvic Management Services (I) Ltd. (hereinafter referred to as "the sub-broker"), a sub broker (SEBI registration no. INS01496938) affiliated to M/s B.M Gandhi Securities Ltd., who is a member of The Stock Exchange, Mumbai (hereinafter referred to as "BSE") has transacted significantly in the scrip of MEL during the relevant period.

2.0 Appointment of the Enquiry Officer

- 2.1 Vide order dated July 24, 2003, an Enquiry Officer was appointed by SEBI under Regulation 5 of SEBI (Procedure for Holding Enquiry by Enquiry

Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as Enquiry Regulation) to enquire into the violations of the provisions of Securities and Exchange Board of India Act, 1992, the Securities and Exchange Board of India (Stock Brokers and Sub brokers) Regulations, 1992 (hereinafter referred to as Broker Regulations), if any, by the sub-broker.

- 2.2 The Enquiry Officer after conducting the Enquiry in terms of the Enquiry Regulations found that the sub-broker has violated Regulations 4 (b) (c) and (d) of SEBI (Prohibition of Fraudulent and unfair Trade practices Relating to Securities Market) Regulations, 1995, (hereinafter referred to as FUTP Regulations) and Clause A of Code of Conduct specified in Schedule II read with Regulation 15 of Broker Regulations and submitted his Enquiry Report dated March 17, 2004 recommending the major penalty of cancellation of the Certificate of Registration of the sub-broker.

3.0 Show Cause Notice and Reply

- 3.1 A copy of the said Enquiry Report along with a show cause notice dated March 24, 2004 was forwarded to the sub-broker under Regulation 13(2) of the Enquiry Regulations informing about the Enquiry Officer's recommendation for cancellation of its Certificate of Registration and advising it to show cause as to why action as may be considered appropriate should not be taken against it. The sub-broker forwarded its reply April 21, 2004 while reiterating the submissions made before the Enquiry Officer, inter alia submitted that a lenient view to be taken in the matter in the matter.
- 3.2 In conformity to the principles of natural justice, a personal hearing was also granted to the sub-broker before me on January 13, 2006 which was attended by the sub-broker and the sub-broker in its written submission stated that its certificate of registration as sub-broker has already been cancelled.

4.0 Consideration of the Enquiry Report and Findings

4.1 I have carefully examined the facts and circumstances of the case. I have also considered the Enquiry Report and the submissions of the sub-broker.

4.2 I also note that SEBI vide its order dated October 07, 2004 had cancelled the registration of the sub-broker on the ground of manipulation in the price of shares of Sawaca Business machines Ltd. which was later set aside by the Securities Appellate Tribunal vide its order dated February 03, 2005 in Appeal no. 17 of 2005 in the matter of Harvic Management Services Ltd. Vs SEBI solely on the technical ground that the show cause notice was not served upon the sub-broker before passing the impugned order. Thus the certificate of registration granted to the sub-broker stands valid and therefore I am proceeding in this matter accordingly wherein the scrip involved is entirely different from the earlier one as aforesaid.

4.2 As regards, findings of the Enquiry Officer, I note the following as the most important observations:-

a) The Enquiry Officer has found that the sub-broker and M/s. Havmore Financial Services (I) Ltd. along with the directors of these companies namely Shri Hemang Jangla, Shri Kalpesh Chawalla, Smt. Sangita Chawalla and Smt. Vibha Jangla were allotted 7,14,100 shares of MEL which amounted to 13.19 % of the issued and subscribed capital of MEL. With this volume of shares in their hands, the sub-broker along with its group entities created volume in the market with the intention of manipulating the price of shares of MEL.

b) The Enquiry Officer has found that sub-broker along with M/s. Mayekar Investments Pvt. Ltd., M/s. K P Investments, M/s. Havmore Financial Services (I) Ltd created volume in the market by executing arranged deals. I also note that the Enquiry Officer

has also found that the sub-broker and M/s Havmore Financial Services (I) Ltd. executed transactions in the scrip which were not intended to cause any change in the beneficial ownership of the shares.

- c) The Enquiry Officer has also found that while the sub-broker was affiliated with the trading member M/s. B M Gandhi Securities Limited, it has acted as a client with two others brokers on the exchange, viz. M/s. Ramanlal D Shah and M/s. Bipin R Vora.
- d) The Enquiry Officer has further found that the sub-broker in order to subvert the surveillance mechanisms of the stock exchange has diverted its business to various brokers on the stock exchange so that his concerted trading does not show up on the surveillance screens of the stock exchanges. The Enquiry Officer has found from the trade and the order log of the transactions done by the sub-broker that the orders were punched in such a manner that it resulted in a trade of synchronized nature.

4.3 Therefore, I note the said transaction is in violation of Regulation 4 (b) (c) (d) of the FUTP Regulations which reads as under:-

4 No person shall

a)

b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities markets;

(c) indulge in any act, which results in reflection of prices of securities based on transactions that are not genuine trade transactions;

(d) enter into a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress, or cause fluctuation in the market price of securities.

4.4 I also note that during the personal hearing before me Shri Hemang Jangla and Shri Kalpesh Chawalla, directors of the sub-broker were present and submitted that the registration of the sub-broker has already been cancelled by SEBI and have already paid the monetary penalty imposed by the Stock Exchange.

4.5 Having examined the Enquiry Report, the Show Cause Notice issued to the sub-broker and the reply from the sub-broker, I agree with findings and the recommendation of the Enquiry Officer.

5.0 **ORDER**

5.1 Now, therefore, in exercise of the powers conferred, by Section 19 of SEBI Act, 1992 read with Regulation 13 (4) of SEBI (Procedure for Holding Enquiry by the Enquiry Officer and Imposing Penalty) Regulation 2002, I hereby cancel the certificate of registration of M/s. Harvic Management Services (I) Ltd. , (sub-broker affiliated to Ms B.M Gandhi Securities Ltd.), having SEBI registration no. INS01496938.

5.2 This order shall come into force after three weeks from the date of this order.

PLACE: MUMBAI

DATE : 25-01-2006

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA